



CERA

2013 NATIONAL REPORT TO THE EUROPEAN COMMISSION

Covering the period July 2012 to July 2013

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1. FOREWORD

The Cyprus Energy Regulatory Authority was established by Law in 2003 in line with European Union Directives and it is Cyprus's independent energy regulator with a wide range of functions in efficient and non-discriminatory regulation and customer protection. The basic objective of CERA is regulating and monitoring the Electricity and Natural Gas Market, ensuring that the Energy Market operates on the basis of sound competition, that the various participants are acting with transparency, that adequate and good quality services are provided and that the interests of consumers are protected, taking into account the environmental impact of projects.

Energy constitutes a crucial sector for each state, as it is directly connected with the economy, which affects the well-being of people, businesses and the environment to a great extent.

The energy policy of the European Union and, by extension, of its Member States has so far been shaped by a common goal, to secure the uninterrupted supply of energy products and services to the market at a cost that all consumers, individuals and businesses can afford, contributing at the same time to the achievement of the broader social and environmental objectives of the Union.

Based on recent data and developments in the field of energy and sustainable development, CERA will continue to perform its duties having as its top priority the development of an anthropocentric and smart energy strategy focusing on the consumer. The proper functioning of the Electricity and Natural Gas Markets is critical for the economy and the stability of the State as well as the welfare of its citizens.



George Shammas

Chairman

2. MAIN DEVELOPMENTS IN THE GAS AND ELECTRICITY MARKETS

The period under review was an important period for Cyprus which was marked by a number of significant milestones at the level of both the European and the national policy, which influenced and is expected to reshape the energy landscape of our country and of Europe in general.

A key feature of CERA's activities in the period under review was a series of important Decisions taken by the Authority that will create the foundation and conditions for the operation of the energy market with a focus on security of supply, protection of consumers and ensuring fair competition through the development of an economically viable and efficient energy market.

A very important development was the harmonisation of national legislation with the 3rd Energy Package of the European Union. The House of Representatives approved the harmonisation amending legislation. As a result, on 28/12/2012, the Amendment Laws 211(I)/ 2012 and 219(I)/ 2012 on Regulating the Electricity Market Laws of 2003 to 2008 and on Regulating the Natural Gas Market Laws of 2004-2007, respectively, were published and came into force.

The harmonisation of legislation with the EU Acquis introduced new provisions which increase the duties and responsibilities and strengthen the powers of National Regulatory Authorities, as well as enhance security of supply and competition and strengthen consumer rights.

CERA in order to facilitate the development of competition and allow the market integration of RES, through a revised market model taking into account that on 1.1.2014 the Cyprus electricity shall be fully liberalised, has been preparing in cooperation with external consultants, a study titled 'Evaluation and Restructuring of the Electricity Market in Cyprus'. This study should also respect the EU targets for energy efficiency, renewable energy and carbon emissions, and take into account the size of the Cypriot economy.

With respect to the domestic gas market and the proper implementation of the relevant directive and legislation, CERA has been conducting a study in cooperation with external consultants, titled 'Law Implementation, regulatory regime and organisation of the internal gas market'. The study will provide a detailed Action Plan of all the necessary steps to be taken by CERA in order to develop, organise and ensure an independent regulatory oversight of the domestic gas market, giving also a timeframe of such steps. In addition, this study will provide a proposal, which will facilitate also the organisation of the domestic gas market in terms of the potential for setting-up wholesale markets for gas and an appropriate sales framework for the offshore gas supply to the domestic market.

In addition to the measures taken for the implementation of the European energy policy and the continuation of the strategy at a national level, CERA continued during the year under review to manage the energy crisis created due to the Mari explosion in July 2011 and the destruction of the largest, most modern and efficient Power Station at Vassilikos. CERA, as the competent authority of the State, which is responsible for ensuring uninterrupted supply of electricity, in 2012 continued to monitor the situation and took all the necessary decisions in order to reduce the impact of the disaster. The work for the restoration of EAC generating units at Vassilikos went ahead according to plan and thus CERA approved the release of all temporary generating units as from 15/09/2012.

2.1 DEALING WITH THE ENERGY CRISIS IN THE YEAR UNDER REVIEW

Responding to the energy crisis created by the tragic incident of 11 July 2011, CERA took in 2012 immediate and specific Decisions.

At a meeting held on 03/12/2011 at the Presidential Palace under the chairmanship of the President of the Republic of Cyprus with all stakeholders regarding the adequacy of electricity generation for 2012, CERA submitted a detailed report on the state of the electricity system and on the timetable for restoration of the Vassilikos power station as prepared by the EAC. In addition to the necessary actions taken by the EAC to restore the Vassilikos Power Station, inter alia, upon the recommendation of CERA, the EAC was asked to prepare a negotiating framework for extending the contracts of temporary generators of a capacity of 165 MW, for six additional months up to 31/08/2012 with the right to extend the contracts until 30/09/2012, or interrupting it after four months and after giving two months' notice, and to invite tenders for the installation of 120 MW additional for the period 15/06/2012–15/09/2012.

CERA, with its Decision No. 716/2012, dated 27/03/2012, decided to approve the recommendations of the EAC Tender Committee for the supply, operation and maintenance by a contracting company of the temporary generating units.

The Energy Crisis Committee, due to deficits in available power generation, at its meeting held on 25/07/2012, after presenting comparative scenario's by the Transmission System Operator regarding the projected and actual electricity demand, showing a decrease in demand between 17-25%, combined with the progress made in restoration work at the Vassilikos Power Station, as it was presented by the EAC, reached the conclusion that it was not necessary to extend the contracts of the 166,6 MW temporary units, ending on 31/08/2012, and of the 120 MW temporary units expiring on 15/09/2012.

The EAC, in a letter dated 10/08/2012 to CERA, recommended that was not considered necessary, for meeting the expected electricity demand, to extend the contract for the temporary units beyond 15/09/2012.

The Members of CERA, taking into consideration the above, as well as the views of the Transmission System Operator, that, "provided that savings of at least 10% in the peak demand continue to be achieved, there would be no problem related to generation adequacy, provided also that weather conditions would be at normal levels, even in the event of a loss of the largest unit of the System", and noting that on the basis of available information, the average reduction in peak demand is clearly well above 10%, decided and approved the recommendation of the EAC for non-renewal and the termination at its expiry on 15/09/2012, for the leasing of the totalling 120 MW temporary generating units.

2.2 IMPLEMENTATION OF THE DIRECTIVE 2009/72/EC

Amendment Law N.211(I)/2012 on Regulating the Electricity Market 2003-2012 harmonises the new provisions of Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC. In the context of harmonisation the regulatory framework of the electricity market has been changed mainly on the following points.

- Concerning the *effective unbundling of networks* from supply and production activities of the vertically integrated undertaking, the harmonisation has been completed in a different way for each network.

In connection with the Transmission *network*, the assessment was made that the model of ownership unbundling did not require modification and the current status of

the Transmission System Operator should remain the same as it was with the arrangement of the first two Energy Packages.

In connection with the *distribution network*, where the provisions of the Directive do not require ownership unbundling as in the case of the transmission, it was envisaged that the EAC should designate a Distribution System Operator having specific powers to manage, operate and develop the network, with impartiality and non-discrimination towards any user of the system.

- Concerning *the strengthening of the powers of the Cyprus Energy Regulatory Authority* several provisions have been added defining, in line with the Directive, the minimum tasks/ competences of the Cyprus Energy Regulatory Authority and the mandatory measures for the effective regulation and supervision of the market. The number of these minimum tasks is indeed increased, they are more specific and broader when compared to those already legislated. In this respect, a report on their effectiveness is required to be submitted to the Agency for the Cooperation of Energy Regulators (ACER). For example, some of the additional tasks of the Cyprus Energy Regulatory Authority are given selectively below:
- Long-term planning for security of supply, energy efficiency/ demand-side management and the achievement of environmental objectives and targets relating to renewable energy sources.
- Monitoring the level of transparency, including the prices of the wholesale electricity market.
- Monitoring competition in the wholesale market, including cross-border transactions.
- Concerning *the protection of the interests of customers*, this has been upgraded into defined, explicit and distinct clients' rights, which guarantee high levels of protection, with appropriate measures taken by the Cyprus Energy Regulatory Authority. Especially for vulnerable consumers, the Cyprus Energy Regulatory Authority ensures that the rights and obligations associated with them are respected and sees that there are adequate safeguards.

The required changes in the regulatory framework necessitate amendments in the secondary legislation as well, such as of the Transmission and Distribution Network technical rules and the Electricity Market commercial rules. To this end studies by consultants both for potentially a new electricity market model and for the amendments of the Regulations have been set in train.

2.3 LAWS ON THE PROMOTION OF RENEWABLE ENERGY SOURCES

During 2012, the Ministry of Energy, Commerce, Industry and Tourism prepared a bill titled "The Promotion and Encouragement of the Use of Renewable Energy Sources Law of 2012", for purposes of partial harmonisation with the Directive 2009/28/EC of the European Parliament and Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.

The Ministry of Commerce, Industry and Tourism organised a public consultation on this bill from 10 August until 18 September 2012. On September 4, 2012 a Public Hearing open to the public at large was held.

During the period under review and in respect to the National Action Plan, the special technical advisory committee set up under the supervision of CERA in 2010, which

consists of representatives from various government departments, agencies, academics and others, aiming to examine the penetration of RES into the system in Cyprus in view of the mandatory targets set by Directive 2009/28/EC, was convened.

The special technical advisory committee proceeded to the second stage (Stage B) of the study, focusing on the integration of RES into the power system without subsidies, an issue that is also considered in other EU Member States and concerns the question of regulating the integration of RES in the electricity market.

The aim of CERA was to have all views on the matter, so as to subsequently be able to formulate final recommendations/ positions on the policy to be followed on this matter, in order to protect consumers, so as to achieve the targets regarding the penetration of RES and the safe and orderly operation of the electricity system.

In the context of achieving the objectives set by the EU, CERA raised the following issues for consideration by the Advisory Committee:

- Issues relating to the installation of RES without subsidies, as the main objective of the study.
- Full clarification and thorough understanding of the responsibilities regarding RES on the basis of the provisions of Directive 2009/28/EC.
- Issues relating to the security and reliability of the grid due to the integration of RES into the system. There are technical issues which concern primarily the Transmission and Distribution System Operators.

Also, CERA noted the following regulatory issues for consideration as follows:

- Impact on the balancing of the market/ operating margin/ long-term reserve etc.
- Network use charges and thermal losses in the transmission and distribution systems.
- Applications for photovoltaic systems that do not require any form of subsidy.
- Maximum capacity of each RES technology that can be connected to the Transmission and the Distribution Systems.

2.4 TRADING & SETTLEMENT RULES

The Electricity Trading and Settlement Rules, inter alia:

- govern the mechanisms, the tariffs and other terms and conditions applying in cases where Licensees buy or sell electricity under arrangements made by the TSO;
- ensure that the licensees who are asked to participate in buying or selling electricity, on the basis of these arrangements, will not be subject to discrimination; and
- promote efficiency and energy saving and facilitate competition in the market and sale of electricity on the basis of these arrangements.

CERA, exercising its powers under the law and in the context of the continuous improvement of the said Rules, in the year under review launched an open competition for the recruitment of a consultant for the evaluation and restructuring of the electricity market in Cyprus. The aim is to evaluate and restructure the Electricity Market in Cyprus on the basis of the new conditions prevailing with regard to the energy resources of the country (natural gas and renewable energy sources capacity) and also possible investments in cross-border infrastructures for the transmission of electricity.

In the period under review, there was no amendment of the Trading and Settlement Rules and the first issue 1.0.0 of the Electricity Trading and Settlement Rules continues to be in force. It is likely that in 2013, after the completion of the results of the above competition, to convene the Advisory Committee on Market Rules.

2.5 TRANSMISSION & DISTRIBUTION RULES

Under the Laws on Regulating the Electricity Market of 2003 to 2012, CERA takes a Regulatory Decision with which it issues instructions to the Transmission System Operator and the Distribution System Operator to prepare and issue technical rules, which are subject to CERA's approval, on the operation of the Transmission System and the Distribution System, respectively.

The provisions of the Transmission and Distribution Rules are observed by all licensees or by persons to whom exemptions were granted, to the extent that the licences or exemptions require this, respectively.

In 2012 there were two additional revisions to the Transmission and Distribution Rules. More specifically on 01/06/2012, following CERA's approval, the revised Version 3.0.1 was published, and subsequently on 26/10/2012, Version 3.0.2, which is the latest version of the Transmission and Distribution Rules in force was published.

2.6 IMPLEMENTATION OF THE DIRECTIVE 2009/73/EC

Amendment Law N.219(I)/ 2012 on Regulating the Natural Gas Market of 2004 to 2012 harmonises legislation with the new provisions of Directive 2009/73/EC concerning the common rules for the internal natural gas market and repealing Directive 2003/55 / EC, completing the establishment of common rules relating to the transportation, distribution, supply and storing of natural gas and organising in a mandatory way the operation of the natural gas sector, access to the market, the criteria and procedures for granting licences, tariffs for services supplied and consumer rights.

Below, a concise description is given of the points of harmonisation with the mandatory provisions of the Directives, taking into account the fact that these are identical to the provisions regulating the electricity market.

- Regarding the *effective unbundling of transmission networks* from the other activities of the vertically integrated undertaking, it was assessed that the harmonisation with the Directive of the Third Energy Package did not necessitate a modification of the existing arrangement. In general, the environment of the Transmission System Operator remained regulated and under the supervision of the Regulatory Authority, which can intervene to resolve disputes between licensees. Some mandatory provisions of the Directive defining the minimum tasks of a “compliance officer” and a supervisory body which shall submit to the Cyprus Energy Regulatory Authority regular and detailed reports on the effectiveness of measures to ensure the independence and impartiality of the transmission system operator from the vertically integrated undertaking and its interests were added.

The appointment of transmission, storing and natural gas liquefaction operators has remained mostly unchanged.

- Regarding the distribution network, the provisions of the Directive do not require ownership unbundling as in the case of transmission and consequently the status remained unchanged.
- Regarding *the mandatory strengthening of the powers of the Cyprus Energy Regulatory Authority* provisions have been added setting the minimum tasks and powers of the Cyprus Energy Regulatory Authority and the statutory measures for the effective regulation and supervision of the market. These minimum tasks are indeed more, more specific and broader than those already legislated, in respect of which a report on their effectiveness must be submitted to the Agency for the Cooperation of Energy Regulators (ACER).
- With regard to *the protection of the interests of customers* this has turned into well-defined, explicit and distinct customers’ rights safeguarded by high levels of protection with appropriate measures taken by the Cyprus Energy Regulatory Authority. Especially for vulnerable customers the Cyprus Energy Regulatory Authority ensures that the rights and obligations associated with them are respected and sees that there are adequate safeguards.

Harmonisation with the Directive has imposed significant changes in the existing legal framework of the natural gas market.

More specifically, the mandatory provisions of Directive 2009/73/EC in general, but also those which provide for clients' rights and the minimum powers of the Cyprus Energy Regulatory Authority in particular, through the harmonisation imposed changes to the existing regulatory framework. They imposed the consumer's right for a choice of supply with natural gas from more than one supplier, irrespective of the Member State they may be established, as well as the existence and functioning of a wholesale energy market. At the same time, they imposed CERA's obligation to submit regular reports on the progress and efficiency of operation of the wholesale market to the Agency for the Cooperation of Energy Regulators.

For purposes of compliance with the mandatory provisions of the Directive, there was a deletion of the provisions restricting the powers of the Regulatory Authority which had been inserted in Amendment Law N.199(I)/2007 and which envisaged the suspension of the powers/ duties of the Cyprus Energy Regulatory Authority to examine applications for licenses, to license and supervise general undertakings operating or intending to operate in the natural gas sector, in case the Council of Ministers decides to assign the import,

supply, transmission and distribution exclusively to one undertaking. The Council of Ministers took such a Decision in June 2008 and consequently the powers of CERA were suspended. The provisions of the Amendment Law of 2012 restored these powers, which are now enhanced in the form of minimum powers/ duties, to the Cyprus Energy Regulatory Authority.

Harmonisation with Directive 2009/73/EC has also introduced a significant, although typical amendment, to the regulatory framework for the natural gas market. More specifically, article 49 of the Directive of the 3rd Energy Package expressly provides in paragraphs 1 and 2 that Cyprus may derogate from the application of specific articles for the period that Cyprus qualifies as an "isolated market" and/ or an "emergent market". This reference shows that Cyprus fulfils the necessary conditions for derogation, without the need of further proof or demarches and now it is up to the Member State to decide on the scope of the derogation i.e. if it will be partial or total derogation from the specific articles.

It should be noted that a thorough and in-depth assessment of the actual situation in the natural gas market is a precondition for the announcement by the Member State of the extent of the derogation and the relevant notice to the Commission. Derogation is not justified if there is no real reason for not opening the market or for not licensing participants for the existence of the investment.

Furthermore, it is noted that the volatility and speed of developments in the natural gas market due to the discovery of hydrocarbon deposits in the Exclusive Economic Zone of the Republic of Cyprus have changed to a great extent the importance of specific derogations and the reasons to invoke them, with the result that they have a rational role in the harmonisation with the Directive.

3. THE ELECTRICITY MARKET

3.1. Network regulation

3.1.1 Unbundling

3.1.1.a. Development in TSO unbundling and Report on TSO Certification

The third energy package provides for **three basic models for unbundling: Ownership Unbundling (OU), the Independent System Operator (ISO) and the Independent Transmission Operator (ITO)**. When implementing the unbundling rules of the third energy package Member States have to decide whether to implement exclusively the Ownership Unbundling model, or leave to the TSO a choice between the different models. However, Cyprus according to article 44 (derogations) of the 2009/72/EC directive has obtained an exemption from article 9 on Unbundling of Transmission Systems, therefore Cyprus has maintained its present regime on TSO unbundling.

As from previous directive, a Transmission System Operator (TSO) has been appointed and functions independently in terms of organization and decision making from the transmission system owner and the distribution system owner and operator which is namely the Electricity Authority of Cyprus (EAC). Under current legislation, the TSO which is legally unbundled, acts independently from production, distribution and supply activities in order to safeguard third party access onto the transmission network and equal treatment of all users of the network.

Furthermore, the TSOs' Certification procedure does not apply for Cyprus due to the exemption from Article 9 of the said directive.

TSO is located separately from EAC. The TSO presents himself to customers as a separate entity with his own name, logo and website. Employees directly employed by network operators (TSO's & DSO's) as share of employees of the total electricity sector approximates to 39,6%. Employees also providing services to other parts of the group as percentage of the total employees in the network business (the denominator includes the shared employees & the exclusive network employees) approximates to 96,8%. TSO is provided with all of its employees by the single vertically integrated utility, namely the EAC.

Share of shared services adds up to 100% and shared employees likewise.

3.1.1.b. Development in DSO unbundling

The Owner of the distribution system has also been nominated as the Distribution System Operator (DSO) and although it is not independent in the sense that the Transmission System Operator is, it has the same duty of safeguarding third party access to the distribution network and the equal treatment of all users of the said network.

The function of the single DSO has remained within the Network Business Unit of EAC in agreement with the relevant clauses of the Electricity Directive and the approval of the Government of Cyprus.

Cyprus as a small and isolated system has decided, according to article 26 on the unbundling of distribution system operators of the 2009/72/EC directive, not to apply the proposed unbundling regime of the DSO.

However, according to current legislation the Cyprus' DSO must establish a compliance programme, which sets out measures taken to ensure that discriminatory conduct is excluded, and ensure that observance of it is adequately monitored. The compliance programme sets out the specific obligations of employees to meet that objective. An annual report, setting out the measures taken, shall be submitted to CERA for approval by the body responsible for monitoring the compliance programme.

DSO is provided with all of its employees by the single vertically integrated utility, namely the EAC.

3.1.2 Technical functioning

3.1.2.a Balancing Services

The "Trading and Settlement Rules" (Market Rules) were officially published and placed into force on 30 January 2009. In general, the Trading and Settlement Rules enable the TSO to fulfil its obligations under the Law, regulate the means by which Participants may trade Energy, Allow the calculation and settlement of payments in respect of Energy and specify the way in which settlement and billing shall be carried out.

The Trading and Settlement Rules provide all necessary information concerning the operation of the electricity market in the country. The balancing arrangements are also described in these.

The system applied in Cyprus is based on Bilateral Agreements between producers and their customers, who must nominate their productions to the TSO 24hrs ahead of their planned production. Their production must balance within $\pm 10\%$ of their customers demand. The difference between total supply and total demand is settled through the balancing market. Gate closure is applied at midnight – as provided by Trading and Settlement Rules. Settlement of imbalances will be arranged on a monthly basis. It should be noted that the balancing interval is 30min.

Participants acknowledge the following principles governing Energy Balance:

- As a bilaterally contracted market, primary Energy Balance is achieved by Participants contracting for delivery of Energy for expected Customer offtakes. Energy Contracts are for delivery of defined amounts of Energy in a Settlement Period.
- Generators will nominate their intended running position to the Transmission System Operator representing their intentions to deliver the physical Energy for which they have made Energy Contracts.
- When the Transmission System Operator during the settlement period believes that the net generation does not equate to net demand (adjusted for losses), then it will contract to buy or sell residual Energy to bring the two into balance according to the offers and bids received in the declarations.

Participants acknowledge the following principles governing System Balance:

- Energy Contracts are for delivery of total Energy over a Settlement Period. However, for particular minutes within a Settlement Period, the system may be long or short of Energy even when, in aggregate for the Settlement Period, the system is in balance. The Transmission System Operator will need to contract to buy and sell Energy to achieve minute-by-minute Energy Balance within the Settlement Period.
- In addition to achieving Energy Balance, the Transmission System Operator will contract for other services to manage system constraints, voltage control and frequency control.

However, the market is not yet operating in practise since there is only one Supplier/Power Producer, namely the EAC.

3.1.2.b Security and Reliability Standards, Quality of Service and Supply

CERA monitors the compliance with and reviewing the past performance of network security and reliability rules and sets or approves standards and requirements for quality of service and supply.

Under the Laws on Regulating the Electricity Market of 2003 to 2012, CERA takes a Regulatory Decision with which it issues instructions to the Transmission System Operator and the Distribution System Operator to prepare and issue technical rules, which are subject to CERA's approval, on the operation of the Transmission System and the Distribution System, respectively.

The provisions of the Transmission and Distribution Rules are observed by all licensees or by persons to whom exemptions were granted, to the extent that the licences or exemptions require this, respectively.

In 2013 there were two additional revisions to the Transmission and Distribution Rules. More specifically on 01/06/2012, following CERA's approval, the revised Version 3.0.1 was published, and subsequently on 26/10/2012, Version 3.0.2, which is the latest version of the Transmission and Distribution Rules in force was published.

In general, the Transmission and Distribution Rules are designed to achieve the development, the maintenance and the operation of an efficient, coordinated and economically viable Transmission & n Distribution System whilst facilitating competition in generation and supply of electricity.

The Rules:

- govern the technical requirements and constraints that will apply wherever license holders wish to connect to the transmission system and/or distribution system or use the transmission system or distribution system for the transportation of electricity
- ensure that the technical conditions that apply to license holders who wish to connect to or use the transmission system or distribution system do not result in them being subject to undue discrimination
- foster efficiency, reliability, and economy in the use and development of the transmission system and the distribution system

The continuity of supply data are provided by the EAC to CERA on an annual basis and are based on supply interruption data available at substation level. Based on the supply interruption data for 2012, the overall minutes lost per voltage level per year are estimated at 41 minutes for H/V, 157 minutes for M/V and 8 minutes for L/V. This represents an increase over the years that data were available. It should be noted that there are no data available for planned interruptions.

SAIDI	2004	2005	2006	2007	2008	2009	2010	2011	2012
unplanned interruptions (customer minutes lost)	108	0,00101	not available	not available	not available	0,01	not available	not available	8

Table 1- SAIDI - unplanned interruptions

3.1.2.c Monitoring time taken to connect and repair

CERA monitors the time taken by the TSO and EAC, to make connections and repairs. Each year the TSO has to report to CERA through its annual report regarding this issue. In general CERA monitors the number of disconnections due to repair and the duration of these disconnections.

Furthermore, CERA on 2005 enacted regulations “on regulating the electricity market-performance indicators-Reg.571/2005” whereby, performance indicators are defined as the indicators for the supply of electricity and include the obligations of the Supplier and Distribution System Owner, consumer rights, performance standards and minimum levels of performance as well as the fine automatically imposed in cases of the Supplier's and/or the Owner's of the Distribution System failure to comply.

3.1.2.d Monitoring Safeguard Measures

In accordance with the recent Electricity Act, when the Minister of Energy, Commerce, Industry and Tourism or CERA decides that a sudden crisis in the energy market is presented, the Minister, after consultation with CERA issues a Decree under which declares the energy market under sudden crisis and determines the beginning of the energy crisis.

Where in the opinion of the Minister or CERA decides that the reasons for which the energy market was declared under sudden crisis, have ceased, the Minister, after consultation with CERA issues a Decree under which declares the end of the sudden crisis in the energy market and determine how to restore the normal situation.

Furthermore, CERA has to issue a Regulatory Decision in order to establish the following:

- Preventive/ pro-active Action Plan of the measures required to eliminate or mitigate risks and
- Emergency Plan of the measures to be taken to eliminate or mitigate the impact of a sudden crisis in the energy market.

The above plans must cause the least possible disturbance in the functioning of the internal market and must not be wider in scope than is strictly necessary to remedy the sudden difficulties which have arisen.

Throughout 2012, safeguard measures had to be taken due to the energy crisis created by the tragic incident of 11 July 2011.

Responding to the energy crisis, CERA took in 2012 immediate and specific Decisions.

At a meeting held on 03/12/2011 at the Presidential Palace under the chairmanship of the President of the Republic of Cyprus with all stakeholders regarding the adequacy of electricity generation for 2012, CERA submitted a detailed report on the state of the electricity system and on the timetable for restoration of the Vassilikos power station as prepared by the EAC. In addition to the necessary actions taken by the EAC to restore the Vassilikos Power Station, inter alia, upon the recommendation of CERA, the EAC was asked to prepare a negotiating framework for extending the contracts of temporary generators of a capacity of 165 MW, for six additional months up to 31/08/2012 with the right to extend the contracts until 30/09/2012, or interrupting it after four months and after giving two months' notice, and to invite tenders for the installation of 120 MW additional for the period 15/06/2012–15/09/2012.

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3.1.2.e RES regulatory framework

Provided security and quality of supply requirements are met, RES-E producers have priority dispatch over conventional ones. According to the Trading and Settlement Rules generators are self-dispatched. Existing RES generators (currently only RES energy sold to EAC by the feed-in tariff regime, is injected to the system) provide their forecast to the TSO on the day-ahead on a half hour basis, and are not liable for any imbalances.

3.1.3 Network tariffs for connection and access

3.1.3.a Report on New tariff regulation provisions

CERA, as the regulator, has the duty and the authority to approve the methodologies used to calculate or establish the terms and conditions for connection and access to the transmission and distribution system. The regulator may also require the TSO and DSO to change the tariffs or methodologies used for determining the distribution tariffs to ensure that these are proportional and non discriminatory.

For the network tariffs, in close cooperation with the TSO and EAC, reports have been prepared using external consultants (from Greece, UK, Ireland and Netherlands) which have already been approved. The methodology developed in the reports is based on the following principles:

- Unbundling of EAC accounts under the following broad categories:
 - Generation
 - Transmission Network
 - Transmission System Operator
 - Distribution
 - Supply
 - Other business
- Re-evaluation of generation and network assets.
- Identification of ancillary services and cost valuation of each one separately.
- Identification of Public Service Obligations.
- Benchmarking of various activities with reference to published performance indices of European Utilities.

These will facilitate the formulation of network tariffs that will guarantee the following pre-requisites:

- Economic Efficiency/cost reflectivity.
- Cost recovery.
- Efficient Regulation.
- Simplicity, transparency and stability.
- Non-discrimination.
- Facilitation of competition.

CERA has been vested through the Law with the responsibility of approving tariff methodologies and actual tariffs and charges of the Monopoly Sectors of the industry and all activities of EAC who is the dominant participant in the Electricity Market.

What is important to mention is that the philosophy behind the structuring of the tariffs for which CERA has the final word, is to protect the consumers against abuse of the dominant position.

In addition the goal of CERA is to encourage, via the tariff structure, the efficiency and the quality of services, which need to be provided to the consumers by the licence holders for generation and supply of electrical energy.

The regulation of the Electricity Tariffs is applied with the aim of maximising the long term benefit of competitiveness in the Cyprus economy, the protection of the consumers, the performance of the Obligations of Public Service and the securing of continuous and normal energy supply.

Within this framework the regulation of Electricity Tariffs seeks to achieve the following main goals:

- Tariffs to reflect the real cost plus reasonable profit for every sector of the electrical energy.
- Unnecessary consumption not to be encouraged, but, on the contrary, energy savings should be encouraged.
- Sufficient incentives to exist for the participants in the Electrical Energy Market, so that they improve the cost of the services they provide.
- The competitiveness of the services provided to be secured.
- Not to create discrimination between consumers.
- Not to distort competition.
- Electricity bills to show in a transparent and clear way the consequences that application of other Policy decisions (e.g. Renewable Sources of Energy) may have on electricity tariffs.
- The structure of the bills and the items comprising them to be as clear and understandable as possible.
- Changes in prices to be anticipated so as to avoid up rapid changes which may cause uncertainty to investors and consumers.

The Electricity Market Law of 2003 adequately covers the requirements of the Electricity Directive under Article 3 for consumer protection and performance standards that affect the quality of supply to all consumers with particular emphasis to vulnerable consumers. Regulations were enacted pursuant to Article 88 of the Law laying down demanding

obligations on the network owner and on suppliers to meet such quality standards that will safeguard the quality and continuity of electricity supply to all consumers.

The TSO in close cooperation with EAC has drafted proposals for the Use of Transmission System Charges.

The proposal for the Use of System Charges was under consideration by CERA for their final approval. Finally, after a serious efforts, extensive calculations, meetings and studies, CERA has approved the tariffs to be used for the purpose of Use of System and Ancillary Service Charges for the years 2010-2012.

The proposal for the Transmission and Distribution Use of System Charges were scrutinised by CERA and after long deliberations, comparisons with other countries, specific analyses they were finally approved for the years 2010-2012.

CHARGES FOR THE USE OF NETWORKS AND OTHER OPERATIONAL EXPENSES	2011	2012
	€cent/kWh	€cent/kWh
Expenses of the Transmission System Operator	0,08	0,08
Ancillary Services	0,20	0,21
Long-term Standby	0,46	0,46
Sub-Total	0,74	0,75
User interconnection to the High Voltage		
Transmission Network Use charges	0,83	0,86
Expenses of the High Voltage Network		
Total for Users Interconnected to High Voltage	1,57	1,61
User interconnection to Medium Voltage		
Expenses of the High Voltage Network	0,83	0,86
Expenses of the Medium Voltage Network	1,28	1,33
Total for Users Interconnected to Medium Voltage	2,85	2,94
User interconnection to the low voltage		
Expenses of the High Voltage Network	0,83	0,86
Expenses of the Medium Voltage Network	1,28	1,33
Expenses of the Low Voltage Network	1,45	1,47
Total for Users Interconnected to Low Voltage	4,30	4,41

Table 2- Charges for the use of networks and other operational expenses

The Cyprus Energy Regulatory Authority, exercising its powers under Article 26 of the Regulating the Electricity Market Laws for the purposes of implementing the provisions of the Law on Energy End-Use Efficiency and Energy Services decided to amend the Statement of Regulatory Practice and Methodology on Electricity Tariffs, with the addition of supplementary targets which must be attained by Electricity Tariffs and which include the provision of information to consumers on:

- a. comparisons between the current consumption of the end user and consumption during the corresponding period of the previous year, preferably in the form of a graph.
- b. comparisons with some normal or model energy consumer of the same category.
- c. addresses etc of consumer associations, energy organisations, or similar organs including website addresses providing information on available measures to improve energy performance, comparisons of various categories of end users and/or objective technical specifications for energy consuming equipment.

In November 2012, CERA by its decision 821/2012 approved the proposal by the TSO regarding the Procedure for the conclusion of a contract between the Transmission System Operator and an applicant (Producer or Consumer), as well as the Basic Principles of the Charging Policy for the connection of RES Producers, Conventional Producers and Consumers, to the Transmission and Distribution Systems, which was accompanied by a thorough study on the subject. The charging policy for connections to the Transmission System related to applications requesting a capacity greater than 8MW for Producers and 12MW for Consumers. The decision apply as from 1/1/2013.

In December 2012, CERA by its decision 835/2012 approved the recommendation of EAC to reduce the price of the off-peak tariff for Storage Heaters (tariff code 55) by 2 ¢cents/kWh (at a basic fuel price €300/MT), with effect as from 1/1/2013.

In February 2013, CERA decided to terminate the surcharge of 5,75% that was imposed on the final electricity bill of all EAC customers in order to cover the additional variable costs that occurred after the Mari blast on 11.7.2013. The surcharge was terminated 2 months earlier than initially announced by CERA.

In February 2013, CERA also decided the review of the fuel adjustment clause, which resulted in around 4% decrease in electricity prices.

Finally, a 5% temporary decrease on basic tariffs was announced by CERA in April 2013, in response to the economic crisis in the island, in an effort to reduce the electricity cost to the consumers thereby offering a temporary easing of their costs.

3.1.3.b Prevention of cross-subsidies

By its decision 688/2011, CERA approved the rebalancing of the EAC's tariffs which involves increases and reductions in various customer categories. The purpose of these is the gradual removal of cross-subsidies among consumer categories which do not provide any financial benefit to the EAC. In accordance with CERA's decision, the EAC revised its existing tariffs and introduced new charges based on a basic fuel cost of €300 per metric tone in compliance with the above decision. The new tariffs were approved by CERA and published in the official Gazette of the Republic.

3.1.4 Cross-border issues

At present, the electricity system of Cyprus operates without cross-border links. An interconnection project through an underwater cable with Greece and Israel is currently under study the so called "Euroasia Interconnector Project" which is promoted as a Project of Common Interest. CERA is monitoring closely this issue in line with the EU directives and regulations.

3.1.5 Compliance

Ensuring compliance with binding decisions of the Agency and the Commission, and with the Guidelines

Under the Third Package NRAs are required to ensure compliance with and implement binding decisions of ACER and of the European Commission. In order to enable CERA to do this, the Electricity Act has been amended so as to provide the Authority with the necessary powers to carry out its functions in the manner that it considers is best calculated to implement or ensure compliance with any binding decision of ACER or of the European Commission.

Compliance of transmission and distribution companies, system owners and electricity undertakings with relevant Community legislation, including cross-border issues

CERA has the power to investigate compliance of transmission and distribution, electricity undertakings with relevant Community legislation. If a breach is found, CERA has the power to impose penalties.

Furthermore, Cyprus has obtained an exemption from article 9 of the new Directive on the unbundling of transmission systems, therefore TSOs' certification compliance does not apply.

3.2 Promoting Competition

3.2.1 Wholesale markets

The Electricity Market was liberalised by 35% with effect from 1st May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all "non domestic" consumers which are able to select their Supplier according to what is in their best interest. However, currently there is no other Supplier in Cyprus apart from the Electricity Authority of Cyprus (EAC). Furthermore and as mentioned before, the Trading and Settlement Rules (Market Rules) have been officially published and placed into force on 30 January 2009. The Law allows a retail market to operate for participants that own and operate enough generation for the needs of their customers.

In this respect no wholesale market is envisaged to function in Cyprus in the near future.

As from 1st of January 2014 the market will be liberalised by 100%, as the ultimate target is for all consumers of electrical energy to be able to choose their Supplier.

In accordance with the diagram below it can be seen that the market is characterised by the following:

Market Regulation:	CERA (with almost full authority)
System & Market Operation:	Director TSO (independent in legal and management terms)
Basic Trading Arrangement:	Bilateral Agreements
Balancing Market:	Balancing energy requirements through TSO
Captive Market:	EAC, ~33% (domestic consumers only)
Eligible Market:	~67% (all non domestic consumers).
Competition in generation:	EAC, IPPs, RES and Producers for Own Use

Development of Electricity Market - Electricity Market Model

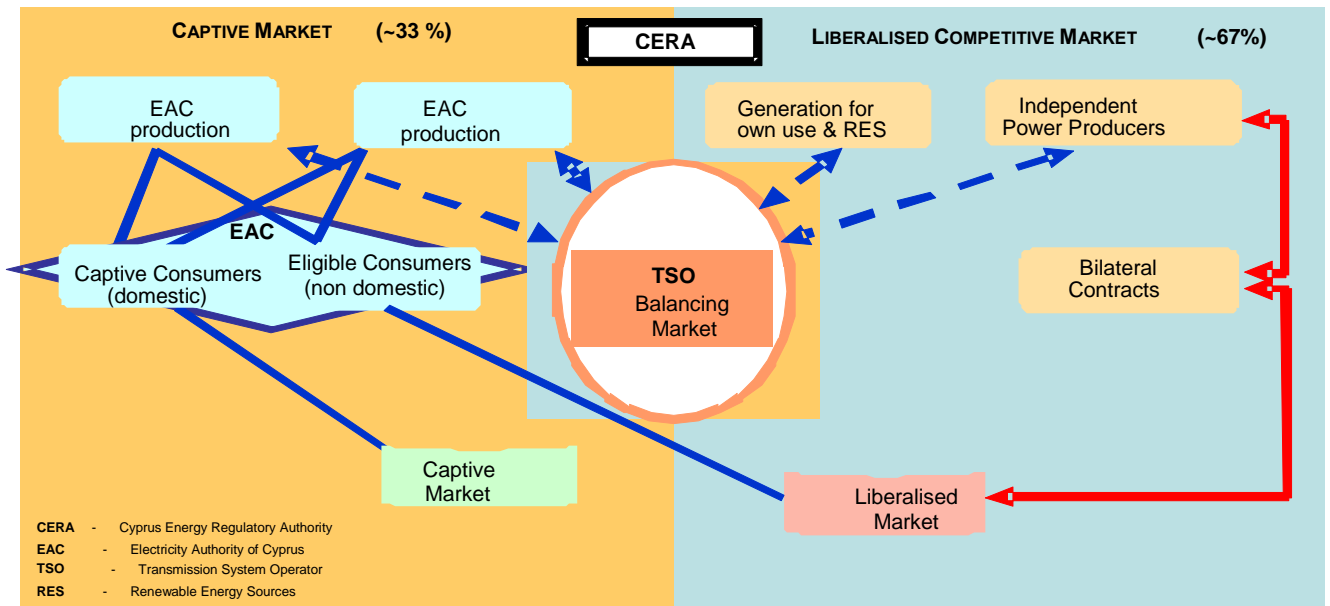


Figure 1 -Electricity Market Model

A brief description of the generation structure of Cyprus is as given below:

The installed generating capacity was after the restoration measures 1374 MW by the generating plants of EAC plus 25,9 MW by the independent producers for own use and 172,50 MW from RES (Photovoltaics, Wind Energy, Biomass and Biogas).

Although demand side management is covered in the approved Transmission and Distribution Rules there is no active participation in demand side management as yet.

As regards the degree of integration of the market with neighbouring Member States, it was previously mentioned that Cyprus constitutes a small isolated system.

It should be noted that the latest developments concerning the advent of natural gas to Cyprus, which significantly influence any investment decisions concerning generation potential, but also the need to facilitate the entry of new participants in the electricity market and the most effective integration and participation of Renewable Energy Sources (RES) in the electricity market, the preparation of a revised National Plan for RES penetration and the review of existing grants' schemes, lead CERA to re-examine the design of the Electricity Market, in order to comply with the overall requirements of the 3rd Energy Package.

For this reason tenders were invited for the employment of Consultants to evaluate and restructure the electricity market in Cyprus. The study will:

- assess the existing market model and its suitability to support the electricity system of Cyprus to operate according to basic principles, such as security of supply, consumer protection, increased penetration of renewable energy sources, ensuring the safety and reliability of the Transmission and Distribution Systems etc.;
- compare the existing market model with other electricity market models;

- suggest improvements to the existing market model or the adoption of an entirely new market model; and
- for the transitional period recommend the implementation of amendments to the existing model or the implementation of a new model and related provisions.

On the basis of the results of the project and the consultation that will follow with all stakeholders, CERA will decide whether there is need to amend the legislative framework and change the design of the market and will instruct the Transmission System Operator to develop new detailed Market Rules in accordance with the provisions of the law or to amend the existing Rules.

3.2.1.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Currently, there is no wholesale electricity market operating in Cyprus therefore monitoring the level of transparency and price monitoring are not applicable yet.

3.2.2 Retail market

Cyprus, being a small isolated system, has opted through the Law of 2003 on Regulating the Electricity Market. As already pointed out, Cyprus has opened the Electricity Market on the 1st May 2004 for the 35% of the annual consumption and on 1st January 2009 extended up to 67%. Before May 2004, EAC was the sole licensee to produce and sell electricity in Cyprus and the situation remains the same up until today, as no new players already being licensed have been put into operation.

The total consumption of customers and the consumption by sector is given below:

CONSUMERS, TOTAL & AVERAGE SALES & AVERAGE PRICES

As at 31 December	2007	2008	2009	2010	2011	212
NUMBER OF CONSUMERS						
Domestic	366 799	386 489	402 671	415 150	422 655	427184
Commercial	78 294	80 913	83 160	84 800	85 325	85198
Industrial	11 299	11 792	11 618	11 391	11 255	10805
Agricultural	12 117	12 796	13 546	14 209	14 692	14978
Public Lighting	7 991	8 499	9 035	9 500	9 983	10333
TOTAL	476 500	500 489	520 030	535 050	543 910	548 498
SALES TO CONSUMERS (thousands kWh)						
Domestic	1 607 048	1 682 327	1 720 777	1 737 474	1 721 663	1671095
Commercial	1 783 885	1 881 173	1 918 932	1 990 994	1 854 782	1836756
Industrial	699 746	757 803	791 640	816 074	796 187	631829
Agricultural	137 339	156 930	143 971	152 642	136 747	128590
Public Lighting	70 301	77 596	80 426	84 788	85 502	87330
TOTAL	4 298 319	4 555 829	4 655 746	4 781 972	4 594 881	4 355 600
AVERAGE SALES PER END YEAR CONSUMER (kWh)						
Domestic	4 381	4 353	4 273	4 185	4 073	3912
Commercial	22 784	23 249	23 075	23 479	21 738	21559
Industrial	61 930	64 264	68 139	71 642	70 741	58476
Agricultural	11 334	12 264	10 628	10 743	9 308	8585
Public Lighting	8 798	9 130	8 902	8 925	8 565	8452
AVERAGE REVENUE PER UNIT BILLED kWh (€cent)						
Domestic	12,746	15,988	13,321	16,192	18,644	22,271
Commercial	13,328	16,982	14,196	16,905	19,352	22,645
Industrial	11,458	14,955	12,325	14,982	17,123	20,868
Agricultural	11,675	15,296	12,697	15,440	18,268	21,929
Public Lighting	11,233	14,554	12,129	14,711	17,416	20,909
ALL CONSUMERS	12,719	16,178	13,473	16,232	18,632	22,188

Table 3 – Consumers, total and average sales and prices

As there is one supplier operating at present, switching procedures for customers to change suppliers are not possible. Regarding the average (typical) contract duration for households, this for the time being is not applicable in Cyprus. Domestic consumers constitute non-eligible electricity customers. However, domestic customers will continue to be supplied only by EAC until the 1st of January 2014 where the 100% opening of the market is expected and all consumers will be able to choose their supplier according to their interest. As a general assessment to whether the market is seen to be active, it could be said that the market seems to become active. By considering the above conditions under which Cyprus has to act, i.e. small isolated system, the progressively opening of the electricity market where it constitutes a contemporary activity for the island, the above situation can be justified.

Year	Market share of three largest companies (Producers)						Cumulative % customers having changed supplier (by volume)		
	Total consumption (TWh)	No. of companies with >5% retail market	Number of fully independent suppliers (1)	Large and very large industrial	Small-medium industrial and business	Very small business and household	Large and very large industrial	Small-medium industrial and business	Very small business and household
2001	3,13	1	0	n/a	n/a	n/a	0	0	0
2002	3,40	1	0	n/a	n/a	n/a	0	0	0
2003	3,66	1	0	n/a	n/a	n/a	0	0	0
2004	3,74	1	0	n/a	n/a	n/a	0	0	0
2005	3,93	1	0	n/a	n/a	n/a	0	0	0
2006	4,14	1	0	n/a	n/a	n/a	0	0	0
2007	4,30	1	0	n/a	n/a	n/a	0	0	0
2008	4,56	1	0	n/a	n/a	n/a	0	0	0
2009	4,66	1	0	n/a	n/a	n/a	0	0	0
2010	4,78	1	0	n/a	n/a	n/a	0	0	0
2011	4,59	1	0	n/a	n/a	n/a	0	0	0
2012	4,35	1	0	n/a	n/a	n/a	0	0	0

(1) i.e. fully independent from Production companies

Table 4- Market share of 3 largest companies & supplier switching

3.2.2.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

CERA taking into account, inter alia, its previous decision dated 27/10/2009 providing for a general increase by 1,5% annually on all EAC tariffs from 1/1/2010 to 1/1/2012, in January 2011, proceeded to publish a decision in an effort to reduce as far as possible the cross subsidizations, which are observed among the various tariffs and consequently the various categories of consumers. The said decision envisaged the following:

CATEGORY OF CONSUMERS	TARIFF Codes	INCREASE (Fuel Price Euro 309,78/MT) As from 1.1.	INCREASE (Fuel Price Euro 309,78/MT) As from 1/1/2012
Domestic	5	1,50%	1,50%
		1,50%	1,50%
		1,50%	1,50%
		1,50%	1,50%

		1,50%	1,50%
	6	1,50%	1,50%
	7	1,50%	1,50%
	8	1,50%	1,50%
		1,50%	1,50%
		1,50%	1,50%
Commercial connected to Low Voltage	15	1,50%	1,50%
		1,50%	1,50%
	16	1,50%	1,50%
	17	1,50%	1,50%
Commercial > 70kVA	60	1,50%	1,50%
	61	1,50%	1,50%
	62	1,50%	1,50%
Industrial > 70kVA	70	0,50%	0,50%
	71	0,50%	0,50%
	72	0,50%	0,50%
Industrial connected to Low Voltage	25	3,50%	3,50%
		3,50%	3,50%
	26	3,50%	3,50%
	27	3,50%	3,50%
Industrial connected to Medium Voltage	73	3,50%	3,50%
	74	3,50%	3,50%
	75	3,50%	3,50%
Street Lighting	35	3,50%	3,50%
Pumping	41	3,50%	3,50%
Storage Heaters	55	3,50%	3,50%
Commercial connected to Medium Voltage	63	0%	0%
	64	0%	0%
Commercial connected to Medium Voltage (i) Load Factor 60%>(LF)>30% (ii) Load Factor >60%	66*	-1,25%*	-1,25%*
		-1,75%*	-1,75%*
Large Industrial L.F>30%	76**	-1,25%**	-1,25%**
Connected to High Voltage	83	-3,00%	-3,00%

Table 5 – CERAs' decision on tariffs

Notes:

* A new tariff for large commercial consumers with approved power of 1000kVA and above. The decrease depending on the load factor shown on the table is as compared to tariff 63 of 2010

** A new tariff for large industrial consumers with approved power of 1000kVA and above. The decrease depending on the load factor shown on the table is as compared to tariff 73 of 2010

Furthermore, for purposes of greater convergence towards the desirable cost-orientation, CERA decided that the fixed charge for all categories of consumers be increased (including the general increase/decrease in tariffs above).

It is clarified that, on the basis of the above decision, it is estimated that EAC revenue for 2012 will be reduced by about €3,7 million, compared with those approved by the previous Decision in 2009. However, it achieves, to a satisfactory degree, the desirable rebalancing of the tariffs, with the final aim of smooth and gradual elimination of any cross-subsidisations being observed.

The proposed changes in the tariffs apply as from the dates appearing in the above tables. However, the application of these changes as from 1/1/2012 is subject to the following conditions:

- Preparation of a transparent unbundling of the Electricity Authority of Cyprus Accounts according to its regulated activities and its submission to CERA by 31/7/2011 for approval;
- Rationalisation of the Organisational Structure of the Electricity Authority of Cyprus with the aim of increasing productivity and substantially reducing costs chargeable to consumers;
- Implementation of a compulsory programme for the substantial reduction of operational expenses, giving emphasis to the reduction of the administration cost which is apportioned to regulated activities as well as to subjects in respect of which the Electricity Authority of Cyprus, in the course of its consultations with CERA at various times, undertook the obligation to make savings;
- Suspension of non-productive capital expenses; and
- Carrying out a detailed study by a specialist firm of consultants on the financial condition of the Electricity Authority of Cyprus in relation to the ten year development plan and its submission to CERA by 31/7/ 2011.

Later in the year, in December 2011, CERA, taking into account, amongst others, its its previous decisions, according to which general increases were approved on the EAC tariffs on the basis of current at the time fuel price of €309,78 MT by +1.5% as from 1/1/2010, +1.5% as from 1/1/2011 and +1.5% as from 1/1/2012, decided that its abovementioned Decision in January 2011 should be implemented with the following changes:

- The increase in the Low Voltage Commercial Tariffs (codes 15, 16 and 17) shall be 0,5% instead of 1,5%;
- The increase in Low Voltage Industrial Tariffs (codes 25, 26 and 27) shall be 2,0% instead of 3,5%; and
- The increase in Medium Voltage Industrial Tariffs (codes 73, 74 and 75) of Street Lighting (code 35), of Water Pumping (code 41) and Storage Heaters (code 55) shall be 2,0% instead of 3,5%.

The above-mentioned reduced prices shall apply for a period of six months. Thus, as from 1st July 2012 the increases shall apply, as they have been fixed the Decision in January, with the exception of the Low Voltage Commercial Tariffs (codes 15, 16 and 17) in respect of which the increase shall be 1,0% instead of 1,5% and the Low Voltage Industrial (codes 25, 26 and 27) in which the increase shall be 2,5% instead of 3,5%.

With respect to tariffs, EAC has committed itself on the following:

1. To study the question of preparing a transparent separation of its accounts according to its regulated activities, with the aim of completing and implementing this study by 31 May 2012,
2. To prepare a new comprehensive study on tariffs with the new data about operating costs and capital expenses. The aim is for the new tariffs to come in force as from 1st January 2013. An obligation has also been undertaken to determine for the first time the internal tariff for EAC generation as from 1st January 2013,
3. To reduce the real elastic operating expenses in connection with its Budget, implementing in this way the condition set by CERA to reduce its operating expenses,
4. To proceed to the rationalisation of the organisational structure of the Authority, with the aim of increasing productivity and reducing the cost which is transferred to the consumers,
5. To prepare soon a study by the World Bank on the EAC finances, keeping CERA informed,
6. To implement a programme for the gradual reduction of its staff at an average rate of about 2% per year and a target of 10% in five years, by applying a specific plan of targeted early retirements in combination with regular retirements. The EAC Board committed itself to include by the end of 2012 the first stage of reductions.

The above commitments are under the control of CERA, which will oversee their implementation as it has been agreed.

Due to the fact that EAC did not proceed to a satisfactory transparent separation of its accounts, in December 2012 CERA issued tender documents for the provision of services as regards the functional and accounting unbundling of EAC. The Tender was awarded to the Consultants in April 2013, and the study for the functional and accounting unbundling of EAC is currently ongoing. It is expected that, after public consultation, CERA will issue guidelines as regards the terms that EAC needs to comply with as regards the functional and accounting unbundling of the organisation.

As regards the new comprehensive study on tariffs, this was submitted by EAC to CERA in December 2013, and is currently being reviewed. Currently there is no updated estimate as to when the new tariffs will be in place.

Other decisions by CERA that have affected electricity prices in the period of July 2012 – July 2013 were the following:

1. The temporary surcharge which was imposed on the electricity invoices to cover the additional variable costs that arose after the Mari blast, of 5.75% on the final electricity bill, was terminated 2 months earlier than originally announced (it was in force until the 28th February 2013 for the monthly charged consumers and until the 31st March 2013 for the bi-monthly charged consumers).
2. The fuel adjustment clause was reviewed and reduced, to reflect the change in the oil mix used for electricity generation, resulting in a decrease in the electricity invoices.
3. In April 2013, CERA decided that all basic electricity tariffs are to be reduced by 5% for two months, starting on the bills dated 30th April 2013 for monthly charged consumers and 1st May 2013 for bi-monthly charged consumers. This

reduction was extended with subsequent CERA decisions until the end of the year 2013/ beginning of 2014.

The Trading and Settlement Rules have been drafted by TSO and approved by the Minister and CERA in accordance with section 79 of the Law.

As mentioned above, the main objectives of the Rules are to:

- Enable the Transmission System Operator to fulfil its obligations under the Law.
- Regulate the means by which Participants may trade Energy.
- Allow the calculation and settlement of payments in respect of Energy and Ancillary Services.
- Specify the way in which settlement and billing shall be carried out and
- Deliver the Electricity Trading Rules as envisaged in the Law.

Also, TSO shall in accordance with section 81 of the Law establish the Trading and Settlement Rules Committee which shall be a standing body constituted to:

- Generally review and discuss the Trading and Settlement Rules and its workings.
- Review and discuss suggestions for amendments to the Trading and Settlement Rules which the TSO, the Regulator or any Party may wish to submit for consideration by the Trading and Settlement Rules Committee from time to time, and
- Publish recommendations and encourage Parties to discuss such recommendations.

The Trading and Settlement Rules, as described above, constitute, inter alia, one of the major factors to achieve transparency between licensed electricity producers/suppliers and to ensure consumer protection.

The Electricity Market was liberalised by 35% with effect from 1st May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all “non domestic” consumers which are able to select their Supplier according to what is in their best interest. However, currently there is no other Supplier in Cyprus apart from the Electricity Authority of Cyprus (EAC).

As from 1st of January 2014 the market will be liberalised by 100%, as the ultimate target is for all consumers of electrical energy to be able to choose their Supplier.

Market integration results in decreasing electricity bill for consumers in countries enjoying large power generation capacities at low cost. Generally, the rationale for opening-up the market makes sense if adequate freedom of choice exists so that considerable effects of production reallocation can be expected. When there are too many restrictions in the system, market opening leads to redistribution without any reallocation. In the case of Cyprus where currently there is only one Supplier of electricity, the Regulator secures that the electricity prices of the “dominant” enterprise reflect the actual cost of the services offered with a reasonable profit.

Even though, CERA has provided an investment friendly framework, involving stable regulatory system and fair incentives for investments on a transparent and non-discriminatory basis, market integration has still not developed to a sufficient extent and this is due to the fact that several licenced (by conventional units) projects are delaying their materialisation awaiting Natural Gas to be introduced to the island. Thus, the main bottleneck in the development and integration of the electricity market is the absence of Natural Gas.

It is worth noting that Natural Gas was defined by a Ministerial Direction as the basic fuel for the production of electricity with regards to future installations of sizeable capacity. CERA has decided that sizeable capacity has to be over 50MW.

3.2.2.2. Recommendations on supply prices, investigations and measures to promote effective competition

The average selling price of electricity in €cent / kWh for all categories is given below:

AVERAGE SELLING PRICE OF ELECTRICITY (€cent / kWh)								
Year	2005	2006	2007	2008	2009	2010	2011	2012
Category								
Domestic	11,009	12,492	12,746	15,988	13,321	16,192	18,695	22,271
Commercial	11,748	13,009	13,328	16,982	14,196	16,905	19,377	22,645
Industrial	9,594	11,111	11,458	14,955	12,325	14,982	17,148	20,868
Agricultural	10,106	11,434	11,675	15,296	12,697	15,440	18,293	21,929
Public Lighting	9,298	10,981	11,233	14,554	12,129	14,711	17,481	20,909
Average Selling Price (€cent / kWh)	10,988	12,408	12,719	16,178	13,473	16,232	18,668	22,188

Table 6- Average Selling Price of Electricity

With regards to investigations and measures to promote effective competition CERA may on its own initiative or after receiving a complaint to investigate whether a licence holder is infringing or omitting to comply with any condition of the licence or any Regulatory Decision or Decision.

After carrying out such an investigation, CERA shall notify a notice to the aforementioned persons by which it shall determine:

- The term of the license or exemption or the regulatory decision or decision which, in CERA's opinion may be infringed at first sight or which is likely to be infringed by the licensee.
- The acts or omissions which in CERA's opinion may or are likely to constitute an infringement of the relevant term, decision or regulatory decision of CERA.

- The deadline within which the licensee may submit objections in writing, which deadline shall not exceed the 30 day time limit from the date that the notice is notified.

CERA shall examine any objections submitted. In examining any objection, CERA may issue a decision by which, it shall order the licensee to take such measures as may be necessary for remedying the infringement or preventing future infringements.

In the event that the licensee fails to remedy the infringement within one month from being notified of the decision of CERA, or within a reasonable period of time as CERA may prescribe by its decision, CERA may:

- Impose an administrative fine on the licensee depending on the nature, seriousness and duration of the infringement or omission as may be prescribed by Regulations issued under the relevant Law; and/or,
- Decide that an administrative fine depending on the seriousness of the case, shall be owed for each day on which the infringement or omission is continuing as referred to above; and/or,
- Revoke an authorisation, exemption, order or prior permit in accordance with the procedure prescribed by Regulations issued by CERA.

CERA's decision to impose an administrative fine or to revoke a license must be in writing and duly reasoned.

CERA's reasoned decision to impose an administrative fine shall be notified to the person who has been considered to be responsible for the infringement or omission. Such person may, after being notified of the decision, make written representations to CERA which must be lodged within 30 days of the notification of the decision. CERA shall collect the administrative fine if the 75 day time limit for filing a recourse before the Supreme Court of Justice has passed without any action being taken from the date of notification of the decision to impose such administrative fine, or, in the event that the recourse has been filed, following the issuing of a court decision which does not annul the fine.

If a fine imposed by CERA in accordance with the Law and the Regulations issued under it is not paid, CERA shall initiate court proceedings and shall collect the sum as a civil debt due to the Fund of the Office of CERA.

3.3 Security of supply (if and insofar as NRA is competent authority)

3.3.1 Monitoring balance of supply and demand

CERA in accordance with the Law on Regulating the Electricity Market has the responsibility, for the adequacy of electricity supply in Cyprus, the reliability and security of the Generation, Transmission and Distribution system and the quality of electricity supply.

CERA systematically monitors the adequacy, quality and reliability of supply and whenever it ascertains possible shortfalls informs the Minister of Commerce, Industry and Tourism, who after consulting with CERA, takes the indicated corrective measures.

After the sharp drop in electricity demand and capacity during the year under review, the generation availability is very high. This is expected to continue over the coming years.

The Table below shows that all the consequences of the energy crisis after the tragic event at Mari in July 2011, ended in 2013, earlier than originally estimated, due to both the adequacy and the swift repair period achieved in restoring Vassilikos Power Station, and due to the demand reduction.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EAC Development Plan								+50MW (ICEII) -30MW Decommissioning of 1 unit Moni PS-390 (Vas PS)-220 (Vas PS)+166,6 (ICE)**	+145MW (CCGT(A)5)+120 (ICE)+145 (Vas PS)****	+150MW (CCGT 4&5)+390 (Vas PS)-286,6(ICE)-150 (Moni)****			
Installed Capacity in MW	988	988	988	1,118	1,318	1,388	1,437	964	1,374	1,478	1,478	1,478	1,478
Maximum Generation Demand in MW	821	856	907	1,056	1,010	1,103	1,437	922	997	920	910	925	950
Available Reserve	20%	15%	9%	6%	30%	26%	0%	964-1.100*****	38%	61%	62%	60%	56%

ICE Internal Combustion Engines

CCGT (O) Combined Cycle Gas-Turbine Plant

CCGT (O) Open-Cycle CCGT

(*) Units in Cold Reserve are taken into account in calculating availability

(**) Inclusion of the new 220MW CCGT unit in 2016 will depend on the rate of increase of demand

(***) Summ.2012-Availability Reduction as compared to 2010: 1 unit at Moni PS, 3x130+1x220MW at Vass. PS. Increase renting ICE 50 MW:166,6+120MW and repair of the CCGT5 Gas Turbines 145MW

(****) Summ.2013-Availability Reduction as compared to 2010: 1 unit at Moni PS, 1x130 at Vass. PS. Increased by completing repairs of CCGT5 MW, 2011 summer production estimate without considering the 11/7/2011 incident

Table 7- EAC Development Plan

The Maximum Demand for 2012 was recorded on Thursday 19/7/2012 at 14:15 hours, when the Total Power Generation rose to **997 MW**. The energy crisis has adversely affected both maximum power generation of the year, as well as the annual energy generation.

The following important records concern the recorded Total Electrical Energy Generated during 2012. The total gross electrical energy generated reached **4 723 700 MWh**. EAC contributed with **4 443 100 MWh or 94,1%**, while generation by self-producers was **4 900 MWh**, or only **0,1%**. RES producers generated **242 510 MWh** in 2010 or **5,1%**. The EAC Generating Stations produced **161 200 MWh or 4,2%** for their local needs. Total units sent out to the Transmission System from the EAC Power Stations, reached **4 281 900 MWh**. Recorded energy losses in the Transmission System amounted to **71 400 MWh or 1,6%** of the energy flowing into the transmission network. It should be noted that the mean value of the Annual Load Factor rose to 53,4% compared with 52,0% in 2011.

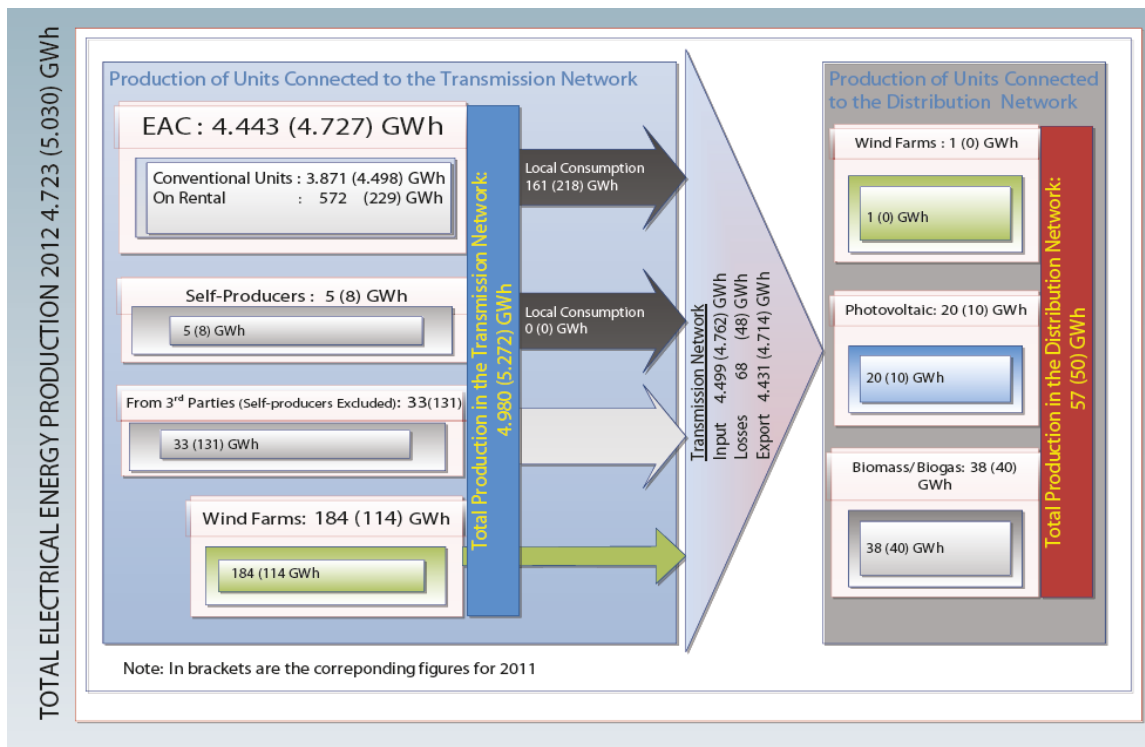
The total Installed Capacity connected to the network in 2012 of generating wind farm stations rose to 146,7 MW, with the annual recorded electricity generation by the end of the year reaching 184 000 MWh.

The total Installed Capacity of Production Plants with the use of Photovoltaic Systems in 2012, which are connected to the Distribution Network, amounted to 16,4 MW from 1 039 Photovoltaic Systems for electricity generation, with annual recorded electricity generation amounting to 19 800 MWh.

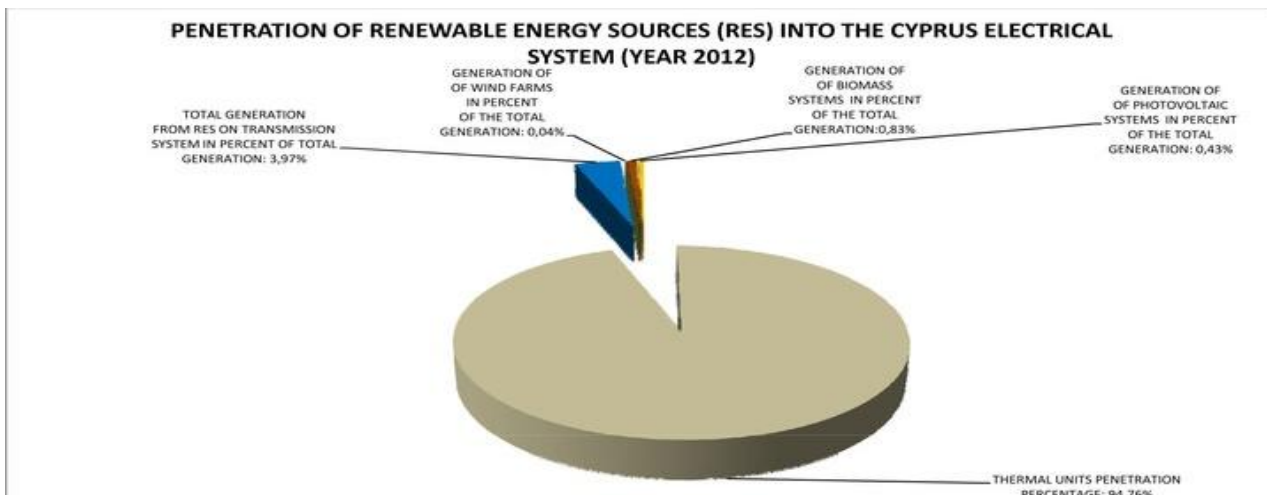
The total Installed Capacity of stations using Biomass/ Biogas in 2012, which are connected to the Distribution Network, according to data supplied by the Electricity Authority of Cyprus, amounted to 9,4 MW from the 12 Generating Stations of Cogeneration of Heat and Power (in respect of which thirteen Construction and Operation Licences were issued). To this number a producer having a capacity of 0,6 MW who is not connected to the electricity grid should be added.

The total electricity production from Biomass/ Biogas units which has been supplied to the EAC Distribution System in 2012 showed a small increase compared with 2011 and amounted to 37 600 MWh. It should be noted that Total Electricity Generation by these units is considerably higher due to consumption of a significant part of energy generated for the internal requirements of generating stations.

The figure 2 below shows the total electrical energy production in 2012.



The figure 3 below gives the RES penetration levels for the year 2012. The average RES penetration reached 5,2 % of the total generation in Cyprus for 2012.



Provisions on security of supply, as in Directive 2005/89/EC “concerning measures to safeguard security of electricity supply and infrastructure investment” have been introduced in the Law. The Transmission and Distribution Rules also include provisions related to operational network system and overall security of electricity supply.

However, with regard to the development of a competitive electricity market the issue of security of supply relates to a great extent with the ability of the market to ensure availability of sufficient generation resources at all times, capable of meeting demand, and providing the reserve and ancillary services needed for a secure and efficient operation of the system.

To that effect cost reflective market prices and transparent market mechanisms operated by independent operators under rules and regulations of an independent regulator should provide relevant signals for investors to timely respond to such needs. However, the combination of a small system size, without interconnections, as in the case of Cyprus reduces the margins for the effective response to such market signals to critical levels.

In line with the spirit of the Directive, the Law assigns priority to the market in offering the appropriate signals to investors so as to construct the most appropriate type and size of generation capacity, in order to meet the various needs of the market. To that effect, the Law adopts and prescribes an authorisation procedure, implemented through licences issued by CERA to interested prospective investors, subject to various criteria which are only supposed to safeguard participants rather than prescribe specific solutions.

Moreover, recognising the specificities of electricity and its importance for the economy, the Law introduces a safety valve, in the form of a tendering process, by which CERA may justifiably intervene when the authorisation process appears to be unable to timely bring about the needed generation capacity. For the specification of the need based on which the tendering process may be initiated the Law refers to the mandate of CERA to act so as to ensure security, continuity, quality and reliability of electricity supply. CERA is thus enabled to require from the TSO timely information on the expected needs of the system, and may provide the appropriate regulatory signals, where necessary; or, CERA may commence the tendering process described by the Law where CERA considers that despite such signals, or due to unforeseen circumstances, the market is unable or unwilling to bring about the needed investment. Clearly, the process should be directed to resolve the specific problem identified by the TSO, which the market cannot address in a timely manner, i.e. it should specify characteristics of new generation corresponding to the requirements of the TSO.

Furthermore, an element of critical importance for the security of supply in Cyprus is access to primary fuel. As discussed, all existing fossil fuel generators run on heavy fuel oil or diesel oil, and some have dual fuel capabilities or can be converted to run on natural gas. At the moment - and until the newly found natural gas reserves in the Exclusive Economic Zone of Cyprus are developed- all of these fuels may only be imported in Cyprus. By means of Reg.115/2006 the Minister of Commerce, Industry and Tourism determined natural gas as the primary fuel for any new units (of a significant size) licenced by CERA to produce electricity from conventional fuels. Furthermore, CERA, through its decision 486/2010, has imposed an obligation on all electricity producers using natural gas as primary fuel, to maintain a stock of alternative fuel sufficient to allow them to produce for at least 8 days at the maximum capacity of each unit, as achievable by using natural gas.

3.3.2 Monitoring investment in generation capacities in relation to SoS

3.3.2.a Operational Network Security

In 2012 the total Capacity Licenced by CERA for Generating Stations is 2.652,8 MW in twenty-five licences, of which nine of a capacity of 1.878 MW belong to the Electricity Authority of Cyprus and twelve of a capacity of 30,9 MW, belong to self-producers. The remaining four, of a capacity of 743,9 MW, belong to independent power producers. Details on the installed capacity of power stations and construction works in 2012 both for conventional units as well as renewable are given below.

● The *Installed Capacity of Conventional Units in 2012 of EAC* is given below:

A. Moni Power Station (300 MW plus 155 MW temporary)

5 Steam Units of 30MW nominal capacity each

4 Gas Turbines of 37,5MW nominal capacity each

Temporary small Internal Combustion Engines (ICE generators) of a total capacity 35MW, to meet the needs after the accident at Mari, from 01/01/2012 until 31/08/2012, when the lease and installation of temporary Internal Combustion Engines was terminated

Additional Temporary small ICE generators of a total capacity of 120MW to meet the needs due to the accident at Mari, from 18/06/2012 until 18/09/2012, when the lease and installation of temporary ICEs was terminated. On 28/10/2012 Steam Turbines of Moni Power Station have been put on cold reserve.

B. Dhekelia Power Station (460MW plus 60MW temporary)

6 Steam units of 60MW nominal capacity each

6 Internal Combustion Engines of 100 MW total nominal capacity

Small temporary ICE generators of a total capacity of 60MW, to meet the needs due to the accident at Mari, from 01/01/2012 until 31/08/2012, when the lease and installation of temporary ICEs was terminated.

C. Vassilikos Power Station (330 MW plus 72MW temporary)

1 Gas Turbine of a nominal capacity of 37,5 MW

1 Gas Turbine of Combined Cycle Plant number 4 of nominal capacity of 72,5MW was available as from November 2012

2 Gas Turbines of Combined Cycle Plant number 5 of total nominal capacity of 145MW were available as from November 2012. In November 2012 Plant no 5 operated in combined cycle at its full capacity of 220MW.

Temporary small Internal Combustion Engines of a total capacity of 71,6MW, to meet the needs due to the accident at Mari, from 01/01/2012 until 31/08/2012, when the lease and installation of temporary ICEs was terminated.

3 Steam Units of 130MW nominal capacity each were under repair and remained inoperative during 2012.

D. Self-Producer Installations exceeding 1MW (21,6MW)

self-producers using Internal Combustion Engines

Construction Works of Conventional Units in 2012

During 2012, the only construction works in progress were those for the restoration of the damage done to Vassilikos Power Plant which were caused by the accident at Mari.

● Installed Capacity of Wind Farm Projects and Construction Works

During 2012 the construction of another four Wind Farms was completed and the total installed capacity of Wind Farms in 2012 in commercial operation amounted to 146,7 MW.

● Installed Capacity of Solar Energy Projects and Construction Works

Investors' interest in the installation of Photovoltaic Systems for commercial purposes of a capacity of up to 150 kW continued to be very strong in 2012.

Total Installed Capacity, with the use of Photovoltaic Systems in 2012 amounted to 16,4MW produced from 1.093 Photovoltaic Systems for Electricity Generation, with total generation amounting to 19,8 GWh, which represents an increase by 95%. It should be noted that in addition a number of systems, of a total capacity of 0,7 MW, which are not interconnected to the EAC Electricity Distribution Network, have been installed and have been operating.

● Installed Capacity of Biomass/ Biogas Units and Construction Works

During 2012, one additional unit for the Cogeneration of Heat and Power, of 800 kW capacity, was put in commercial operation.

The total installed capacity of units for the cogeneration of heat and power, autonomous or interconnected to the electricity system, for 2012 amounted to 9,4 MW.

The table 8 below gives comparative data of generation from renewable energy sources during the years 2009 to 2012.

RES Technology	Installed Capacity (MW)				Energy Produced Annually (GWh)				Percentage of the RES Produced Energy to the Total (5.037 GWh) (%)
	2009	2010	2011	2012	2009	2010	2011	2012	2012
Wind	0,0	82,0	82,0	146,7	0,0	33,3	114,3	185,0	3,9%
Photovoltaic	2,7	5,6	9,3	16,4	3,0	4,8	10,2	19,8	0,4%
CONCENTRATING SOLAR POWER (CSP) TECHNOLOGIES Parabolic troughs with storage for 6 hour production	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0%
Biomass/ Biogas	3,6	7,8	8,0	9,4	19,8	24,8	39,7	37,6	0,8%
Total (MW / GWh)	6,30	95,40	99,30	172,50	22,80	62,90	164,20	242,40	5,1%

Table 8 - Comparative data of generation from renewable energy sources

3.3.2.b Investment in Interconnection capacity for the next 5 years or more

Existing interconnection projects: There are no interconnection projects at the moment

Future interconnection projects: 'Euroasia Interconnector'

The project consists of a 600 kV DC underwater electric cable and any essential equipment and/or installation for interconnecting the Cypriot, Israeli and the Greek transmission networks (offshore). The project will have a capacity of 2000 MW and a total length of around 820 nautical miles/around 1518 km (329 km between Cyprus and Israel, 879 km between Cyprus and Crete and 310 km between Crete and Athens) and allow for reverse transmission of electricity. The dumping depth of the cable will exceed the 2000 m under the sea in some areas between Israel and Cyprus. The dumping depth of the cable will exceed the 2000 m under the sea in some areas between Israel and Cyprus and will exceed the 2500 m under the sea in some areas between Cyprus and Greece.

Year	Project type	Project Status	From country	To country	Voltage level	Line capacity
	new	feasibility phase (the feasibility study is not as yet completed – a prefeasibility study is under consideration)	Israel	Greece	600kV	2000MW

Table 9 – Project details

According to the Project Promoter the date of commissioning of the Euro Asia Interconnection Project is the following:

- Interconnection between Hadera (IL) and Vasilikos (CY)- 2017
- Interconnection between Vasilikos (CY) and Korakia, Crete (EL)- 2020
- Internal Line between Korakia, Crete and Attica region (EL) - 2018

CERA, among other things, believes that with the completion of this project, Cyprus will cease to be isolated from the European network system, which is one of the most important pillars set by the Proposal for a Regulation. It will also contribute positively to the achievement of the objectives set by the EU concerning, amongst others, the completion of the internal electricity market, security of supply, improved energy efficiency and the reserve provision in emergency situations. This project fully satisfies the general criterion for trans-boundary impact and, therefore, CERA has given a positive opinion on this project, mentioning that some studies are still in progress, so there is a lack of information about certain issues, such as the results of a cost/ benefit analysis.

3.3.2.c Expected future demand and envisaged capacity for the next 5 years and 5-15 years

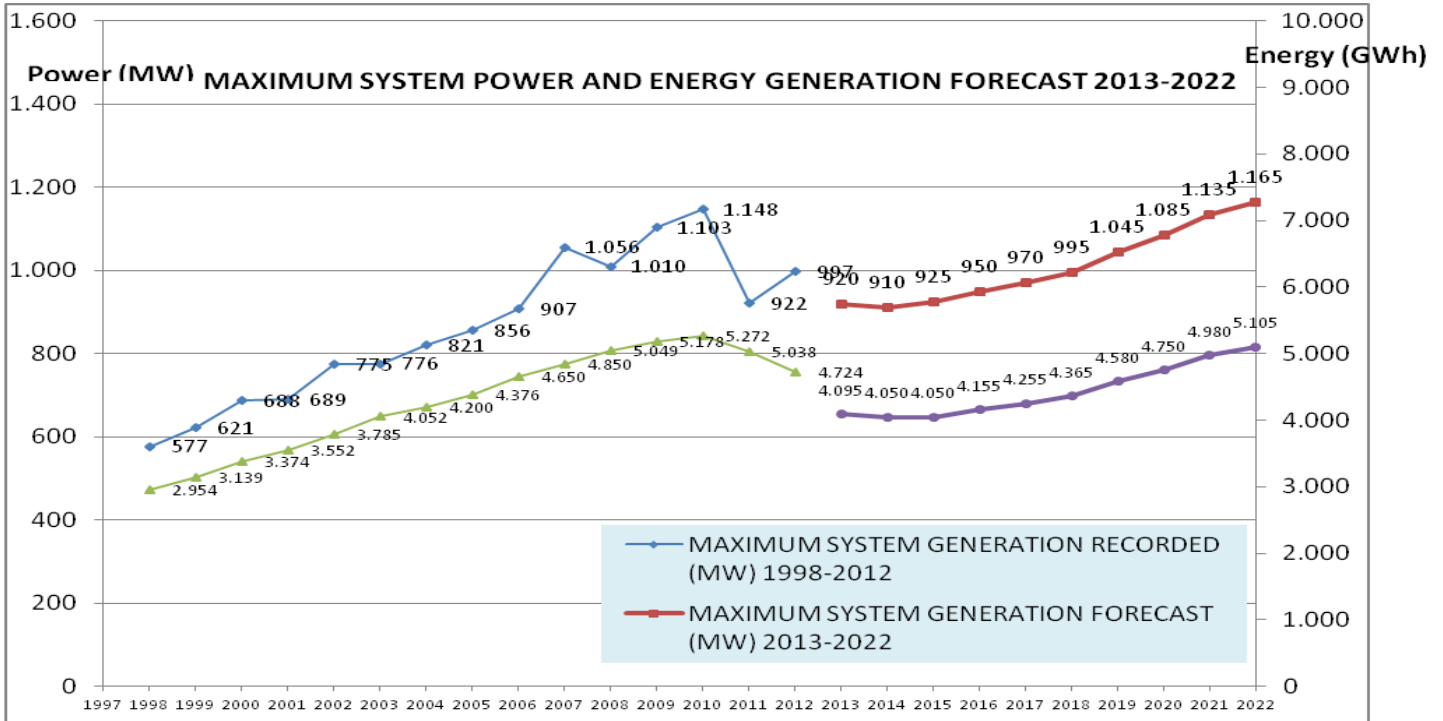


Figure 4 – Expected future electricity demand

Cyprus has an obligation to reach 16% share of renewable energy in the gross energy consumption by 2020. The National Renewable Energy Action Plan submitted by the Government projected that by 2018 the electricity generation capacity from renewable energy sources would reach 400MW. This capacity is expected to reach 20% share of renewable energy in the gross energy consumption.

RES Technology	National plan provision	Installed Capacity (MW)						
		2011	2012	2013	2014	2015	2016	2017
Aeolian	210	82	147	165	165	175	175	175
Photovoltaic	100	9	16	84	131	176	191	201
Concentrated Solar Power Parabolic Mirror with 6-hour production storage facility	75	0	0	0	0	25	25	25
Biomass	15	8	9	10	10	15	15	15
Total Installed Capacity (MW)	400	99	172	259	306	391	406	416
Recosted and Forecast Total System Electrical Energy Production (MW)	995	922	977	920	910	925	950	970

Table 10 – National RES Plan provisions

3.3.3 Measures to cover peak demand or shortfalls of suppliers

CERA, during the energy crisis in 2011 and 2012 has taken immediate and effective steps to alleviate interruption of suppliers and to terminate shortfalls at the shortest possible time and at the same time at the lowest possible cost. Details are given in paragraph 3.1.2.d-“Monitoring Safeguard Measures” above.

4 THE GAS MARKET

4.1 Network regulation

4.1.1 Unbundling

The gas sector according to the last amendment of the Law regulating the Natural Gas market as well as the relevant Ministerial Decision, shall be monopolistic.

Gas Market Organisations

In May 2012, the Council of Ministers issued a decision for the establishment of the Cyprus National Hydrocarbons Company (as a private company, according to the provisions of Article 16 of the Hydrocarbons (Prospection, Exploration and Exploitation) Law of 2007. Following a second relevant Decision of the Council of Ministers, issued October 2012, CNHC was registered on 04/10/2012 as a private entity. CNHC is fully owned by the State as the Government holds 100% of its shares.

The Council of Ministers decided on 05/07/2013 to merge DEFA (DEFA is the Natural Gas Public Corporation-CYGAS which is an independent private entity, which was established with the mandate to purchase, import, acquire, possess, use, exploit, store, transfer, provide, distribute, sell, supply and trade natural gas, to make use of the LNG import terminal, probably an FSRU and carry out any other work consistent with the above for the internal market), with CNHC, in order to establish “a single sales organization for the off-shore gas supply (both exports and domestic markets) imports and exports”.

The merger will be implemented by the Law Office of the Republic. The exact duties and responsibilities of the “new” (DEFA&CNHC) organization will be specified by a second decision of the Council of Ministers, based on the recommendations in the abovementioned report. Therefore, this decision will not affect in any way the gas customers’ freedom of choice of supplier. Furthermore, it should be stressed that this decision is without prejudice to further decisions on the regulatory regime and gas market organization, that will be taken after all the relevant studies are finalized and necessary consultations among the State, CERA and the other main stakeholders take place. Consequently, the gas customers’ freedom of choice of supplier is subject to these further decisions on the regulatory regime and market organization not yet taken. All these decisions will be taken under the objective of the Government of Cyprus for the subsequent establishment of a fully functioning, open, transparent and competitive energy market.

In respect to the above Governments' Decision as well as the structuring of the Natural Gas market, CERA is being conducting a study namely "Law implementation, regulatory regime and organization of the internal gas market" is ongoing. This study shall include the implementation of the pertinent law and the identification of the necessary steps and actions to be taken. In addition, the study shall cover the regulatory regime and the organization of the internal gas market to be established at the initial stage and/or to be developed in Cyprus.

Exemptions

In accordance with the new Directive 2009/73/EC in connection with the common rules for the internal market of natural gas and the repealing of Directive 2003/55/EC, Cyprus has obtained an exemption from article 9 of the new Directive on the unbundling of transmission systems.

4.1.2 Technical functioning

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.1.3 Network and LNG tariffs for connection and access

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.1.4 Cross-border issues

At present there are no cross-border gas links in Cyprus; however specific interconnection projects are promoted as Projects of Common Interest. The European Commission has declared several energy projects, which are of strategic importance for Cyprus and Greece, as potential 'projects of common interest'.

Gas pipeline and associated equipment for the transportation of a minimum of 8 bcm/a of new sources of gas from the offshore fields in the East Mediterranean to Cyprus, Crete and Greece Mainland, consisting of one or more of the following PCIs:

- Pipeline from offshore Cyprus to Greece mainland via Crete, currently known as the "Trans-Mediterranean Pipeline"
- Pipeline from offshore Cyprus to Greece mainland via Crete, currently known as the "East Med Pipeline"

The above projects have been merged and a common statement of the Greek and Cypriot Authorities is being submitted to the Commission. The project promoter of the projects shall be DEPA in close cooperation with the Ministry of Energy, Commerce, Industry and Tourism of Cyprus.

CERA is monitoring closely this issue in line with the EU directives and regulations.

4.1.5 Compliance

Ensuring compliance with binding decisions of the Agency and the Commission, and with the Guidelines

Under the Third Package NRAs are required to ensure compliance with and implement binding decisions of ACER and of the European Commission. In order to enable CERA to do this, the Gas Act has been amended so as to provide the Authority with the necessary powers to carry out its functions in the manner that it considers is best calculated to implement or ensure compliance with any binding decision of ACER or of the European Commission.

Compliance of transmission and distribution companies, system owners and natural gas undertakings with relevant Community legislation, including cross-border issues

CERA has the power to investigate compliance of transmission and distribution, natural gas undertakings with relevant Community legislation. If a breach is found, CERA has the power to impose penalties.

Furthermore, Cyprus has obtained an exemption from article 9 of the new Directive on the unbundling of transmission systems, therefore TSOs' certification compliance does not apply.

4.2 Promoting Competition

4.2.1 Wholesale markets

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.2.1.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.2.1 Retail market

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.2.2.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.2.3 Recommendations on supply prices, investigations and measures to promote effective competition

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.3 Security of supply

Regarding the security of Natural Gas Supply, the 994/2010 Regulation concerning measures to safeguard security of gas supply is automatically applicable in the event a gas market exists and therefore any implementing measures are not required. Furthermore, CERA according to the recent Gas Act is appointed as the Competent

Authority to ensure implementation of the measures laid down in Regulation (EU) No 994/2010.

In respect to the said Law, CERA shall prepare and implement a long-term plan, taking into account the possibility of third parties seeking access to the system, in relation to security of supply, energy efficiency/demand-side management and for the fulfilment of environmental goals and goals for energy from renewable sources. The long-term plan shall be prepared on a 10-year rolling basis and shall take into account any instructions which the Minister may publish from time to time relating to government policy.

It should be noted that CERA has prepared strategic guidelines for the development of the natural gas sector which deal inter alia with security of gas supply.

4.3.1. Monitoring balance of supply and demand

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.3.3 Expected future demand and available supplies as well as envisaged additional capacity

Currently, natural gas is not available in the island, therefore is not applicable as yet.

4.3.4 Measures to cover peak demand or shortfalls of suppliers

Currently, natural gas is not available in the island, therefore is not applicable as yet.

5 Consumer protection and dispute settlement in electricity and gas

5.1. Consumer protection

The **consumer protection measures**, including those set out in Annex I of the directives 2009/72/EC and 2009/73/EC, are **effective and enforced** through the Law N.211(I)/2012 on Regulating the Electricity Market and N.219(I)/2013 on Regulating the Gas Market respectively, which transposed the provisions of the said directives.

CERA has also been granted the power to contribute to ensuring high standards of universal and public service in compliance with market opening, to the protection of vulnerable customers, and to the full effectiveness of consumer protection measures.

CERA ensures that consumers are provided with all necessary information concerning their rights, current legislation and the means of dispute settlement available to them in the event of a dispute. The content of the information needed shall be prepared by CERA and shall be available at the very least in electronic format at Citizens Service Centre and at the local district offices of the Ministry of Energy, Commerce, Industry and Tourism. The Office of CERA, the Citizens Service Centre and the Ministry of Energy, Commerce, Industry and Tourism shall constitute the **single points of contact** for consumer information purposes.

Furthermore, CERA is designated as the body (energy ombudsman or consumer body) which acts as an **independent mechanism** in order to ensure efficient treatment of complaints and out-of-court dispute settlements.

According to the law CERA shall ensure that electricity or natural gas suppliers or distribution system operators, in cooperation with CERA, take the necessary steps to provide all consumers with a copy of the **Energy Consumer Checklist** which contains practical information relating to energy consumer rights, which the Commission shall prepare in consultation with relevant stakeholders, including Member States, the national regulatory authorities, consumer organisations and undertakings, and shall ensure that the said Checklist is available to the public.

The Minister of Energy, Commerce, Industry and Tourism following consultation with CERA has issued a Decree K.D.P.218/2013 on 26/6/2013 whereby energy poverty is defined. According to the said decree energy poverty is related to the condition of consumers who may be in a difficult position because of low income, as evidenced by tax declarations in conjunction with their professional status, marital status and special health conditions, and therefore they are unable to meet the costs of the reasonable need of electricity supply, as these costs represent a significant proportion of their income.

Furthermore, this Decree has defined vulnerable customers as follows:

“Vulnerable customers are the following categories of electricity customers:

- The recipients of public assistance provided by the Social Welfare Services of the Ministry of Labour and Social Insurance
- The Recipients of Severe motor disability allowance provided by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour and Social Insurance

- The recipients of the allowance to pensioners with low incomes provided by the Grants and Benefits Service, Ministry of Finance
- The recipients of care allowance in paraplegic individuals granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour and Social Insurance
- The recipients of care allowance in tetraplegic individuals granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour and Social Insurance
- The Recipients of the grant to blind granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour and Social Insurance.
- Families with more than 3 dependent children with an annual gross family income up to € 51.258.”.

The measures that have been enforced through the Decree for the protection of vulnerable customers are the following:

- Reduced prices on electricity tariffs
- Financial incentives for participating in a Plan for setting up a Photovoltaic system at their house, with a capacity up to 3kW with the net-metering method

The Minister has also issued a Decision K.D.P.223/2013 on 27/6/2013 whereby he gives instructions to CERA to impose Public Service Obligations to Electricity Suppliers in order to enforce the measure on providing reduced electricity tariff to vulnerable customers. To this effect, CERA has issued a Draft Regulatory Decision on 5/7/2013 which is currently under consultation.

Related to the provisions of the Law, the supplier shall be obliged not to terminate the connection in critical periods for vulnerable customers as defined inter alia in relation to energy poverty by the Minister following consultations with CERA.

5.2. Dispute settlement

5.2.1 Electricity Market

CERA has the power to issue Regulations concerning the protection of the interests of the consumers of electricity requiring that any Supplier of electricity and the Distribution System Owner (DSO), within a prescribed time period, propose and implement procedures for the submission of complaints by consumers, which procedures allow consumers to register complaints and prescribing how any Supplier and the DSO shall respond to complaints received by consumers.

The Regulations may impose requirements on suppliers and the DSO relating but not limited to:

- Procedures for the submission and, where appropriate, re-submission of proposed complaints procedures for approval.
- The timetable for the implementation of the complaints procedures.
- Penalties for failure to comply with the consumer complaints Regulations relating to the preparation or implementation or review of complaint procedures.
- A requirement that suppliers and the DSO review their complaints procedures at intervals of not more than five years.
- Establishing procedures to deal with complaints from consumers that are not settled through complaint procedures to the satisfaction of consumers.

Specifically, the following Regulations relevant to the above mentioned were enacted:

- Regulations on Regulating the Electricity Market (Procedure for Submitting Complaints) of 2005.
- Regulations on Regulating the Electricity Market (Performance Indicators) of 2005.

The first of the above mentioned Regulations determine the procedure for submission of complaints by consumers in cases where suppliers of electricity and/or the Owner of the Distribution System, or both, are in breach of their obligations or duties and/or are acting outside the scope of their prescribed by the Law jurisdiction.

Specifically, the above mentioned Regulations provide for the following, inter alia;

- Consumers' right to submit complaints to the Suppliers and/or the Owner of the Distribution System.
- The obligation of the Supplier and/or Owner of the Distribution System to respond to the complaints.
- The right to submit complaints to CERA and the procedure for examining complaints by CERA.
- The omission of the Supplier and Owner of the Distribution System to comply with CERA's' decisions.
- The penalties provided for in the Regulations.

The second of the Regulations mentioned above, sets the minimum level of performance in relation to the performance indicators of the Supplier of electricity, which must be achieved by the Supplier and the Owner of the Distribution System.

Furthermore, this Regulation provides for a Charter of Consumer Rights and sets the time limit within which a Supplier and the Owner of the Distribution System must respond, determines the fines, the procedure of payment and the time at which the fines are to be paid in cases where a Supplier or the Owner of the Distribution System fails to comply with the performance indicators set out therein.

By the implementation of these Regulations the rights of the consumers are safeguarded, their protection is secured, the procedure for the submission of consumer complaints is regulated in the event that Suppliers of Electrical Energy and/or the Owner of the Distribution System or both are in breach of their obligations, competences and duties, the end result being the improvement of the services offered to consumers.

The following tables show the results for the years 2007, 2008, 2009, 2010, 2011 and 2012 of the penalties (€) imposed to EAC as DSO and as a Supplier for failure to comply with the customer complaints regulation relating to the preparation or implementation or review of complaints procedures.

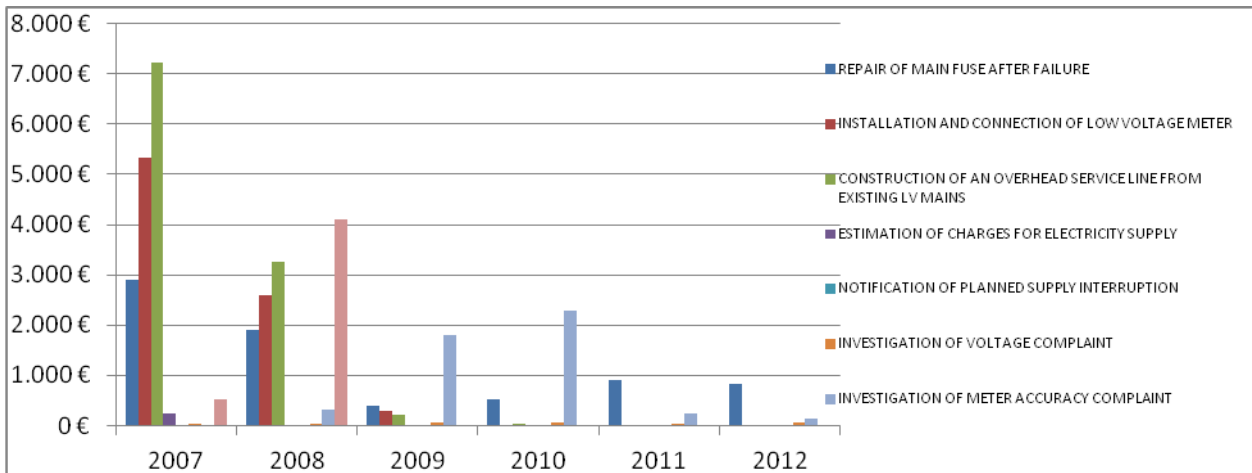


Figure 5 - Performance Indicators Regulations of EAC as DSO

	2007	2008	2009	2010	2011	2012
REPAIR OF MAIN FUSE AFTER FAILURE	2.905 €	1.896 €	393 €	529 €	914 €	828 €
INSTALLATION AND CONNECTION OF LOW VOLTAGE METER	5.331 €	2.605 €	290 €	0 €	0 €	0 €
CONSTRUCTION OF AN OVERHEAD SERVICE LINE FROM EXISTING LV MAINS	7.227 €	3.264 €	205 €	17 €	0 €	0 €
ESTIMATION OF CHARGES FOR ELECTRICITY SUPPLY	239 €	0 €	0 €	0 €	0 €	0 €
NOTIFICATION OF PLANNED SUPPLY INTERRUPTION	0 €	0 €	0 €	0 €	0 €	0 €
INVESTIGATION OF VOLTAGE COMPLAINT	34 €	34 €	68 €	68 €	34 €	68 €
INVESTIGATION OF METER ACCURACY COMPLAINT	0 €	308 €	1.811 €	2.289 €	239 €	136 €
RESPONSE TO COMPLAINTS, APPLICATIONS, LETTERS OR GIVING INFORMATION	530 €	4.102 €	0 €	0 €	0 €	0 €

Table 11 – Performance Indicators Regulations of EAC as DSO

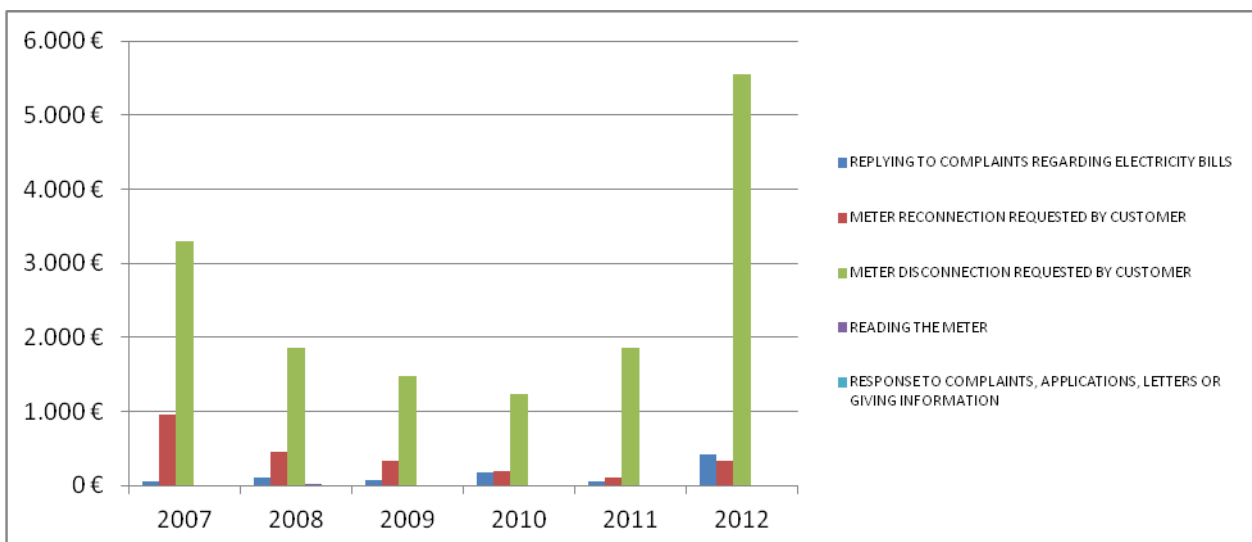


Figure 6 - Performance Indicators Regulations of EAC as a Supplier

	2007	2008	2009	2010	2011	2012
REPLYING TO COMPLAINTS REGARDING ELECTRICITY BILLS	51 €	103 €	68 €	171 €	51 €	427 €
METER RECONNECTION REQUESTED BY CUSTOMER	957 €	453 €	333 €	188 €	111 €	333 €
METER DISCONNECTION REQUESTED BY CUSTOMER	3.298 €	1.853 €	1.477 €	1.238 €	1.853 €	5.551 €
READING THE METER	0 €	9 €	0 €	0 €	0 €	0 €
RESPONSE TO COMPLAINTS, APPLICATIONS, LETTERS OR GIVING INFORMATION	0 €	0 €	0 €	0 €	0 €	0 €

Table 12 – Performance Indicators Regulations of EAC as a Supplier

It should be noted that table 11 shows a decrease in the total amount paid by the EAC as Owner of the Distribution System in 2012 compared with 2011, this may be considered quite satisfactory.

Regarding consumer complaints, which have been presented or formally submitted to CERA, it could be said that they were maintained within acceptable levels. Registered consumer complaints are shown in the table below:

Consumer Enquires/Complaints									
2008		2009		2010		2011		2012	
Enquiries /advice	Formal complaints	Enquiries/ advice	Formal complaints	Enquiries/ advice	Formal complaints	Enquiries/ advice	Formal complaints	Enquiries/ advice	Formal complaints
10	3	2	8	4	8	11	34	4	31

Table 13 – Customer enquiries / advice or complaints presented or submitted to CERA

The majority of the above complaints were based on bill issues, prices and tariffs. CERA handled with care the above complaints, with the collaboration of EAC and TSO, leaving the consumers in most cases satisfied.

5.2.3 Gas Market

Even though, there is no gas market in Cyprus the provisions of the directive 2009/73/EC regarding dispute settlement are in place. Therefore, any party having a complaint against a transmission, storage, LNG or distribution system operator in relation to that operator's obligations under this Directive may refer the complaint to CERA which, acts as dispute settlement authority, and issues decisions within a specific period after receipt of the complaint. CERAs' decision shall have binding effect unless and until overruled on appeal.

As mentioned above CERA is designated as the body (energy ombudsman or consumer body) which acts as an **independent mechanism** in order to ensure efficient treatment of complaints and out-of-court dispute settlements.